

## **LINE 610 - ABILITY TO FUNCTION IN EMERGENCY SITUATIONS**

West Plains Telecommunications, Inc. is able to function in emergency situations for both voice and broadband service. The Company has a reasonable amount of back-up power to ensure functionality without an external power source. Standby power generators are supplied at the central office, remote switch sites, and repeater sites to ensure functionality without an external power source until power is restored. The network is capable of managing traffic spikes resulting from emergency situations.

The Company is able to reroute traffic around damaged facilities. Although the Company's ability to reroute traffic around damaged facilities is not absolute and may be limited in certain circumstances, there is a restoration plan in place for expeditious recovery of service, including splicing of damaged facilities when warranted.

## **LINE 1010 – VOICE SERVICES RATE COMPARABILITY**

The Wireline Competition Bureau's most recent reasonable comparability benchmark for voice services is \$47.48, which includes the federal subscriber line charge ("SLC").<sup>1</sup>

In all of the exchanges served by West Plains Telecommunications, Inc. ("the Company"), the single-line residential local rate, including any mandatory extended area service charge, is \$15.44. When the federal SLC (\$6.50) and the state universal service fee (\$.57) are included, the rate becomes \$22.51. Therefore, the Company's pricing of fixed voice services is less than the reasonable comparability benchmark of \$47.48.

---

<sup>1</sup> *Wireline Competition Bureau Announces Results of 2015 Urban Rate Survey for Fixed Voice and Broadband Services and Posting of Survey Data and Explanatory Notes*, Public Notice, WC Docket No. 10-90, DA 15-470 (rel. April 16, 2015).

## LINE 1210 – TERMS & CONDITIONS OF VOICE TELEPHONY LIFELINE PLANS

West Plains Telecommunications, Inc. offers qualified Lifeline subscribers a discount of either \$13.25 (9.25 federal discount + 3.50 state discount + \$0.50 area discount) or \$13.17 (\$9.25 federal discount + \$3.50 state discount + \$0.42) or \$13.10 ((\$9.25 federal discount + \$3.50 state discount + \$0.35 area discount) on a flat-rate residential access line, depending upon the exchange.

The Lifeline single-line residential rates, including any applicable mandatory extended area service charge and the federal subscriber line charge ("SLC") are provided below for the exchanges the Company serves:

Sudan and Muleshoe Exchanges are **\$8.69** (\$21.94 standard rate - \$13.25 Lifeline discount);

Earth and Springlake Exchanges are **\$8.84** (\$21.94 standard rate - \$13.10 Lifeline discount);

Olton Exchange is **\$8.77** (\$21.94 standard rate - \$13.17 Lifeline discount).

The residential access line provided on a stand-alone basis or as part of a package always includes an unlimited number of local calling minutes.

Toll calls for a stand-alone access line are billed at the rate of the carrier chosen by the customer.

The Company does not disconnect the service of Lifeline subscribers for the non-payment of toll charges. However, the Company reserves the right to implement toll blocking, at no charge, if the customer incurs a significant balance of unpaid toll bills.

Lifeline Program reductions do not apply to additional services such as information-related services and custom calling features. Lifeline customers may subscribe to these services, where available, at the same rates offered to other customers.

Additional information regarding the terms and conditions of voice telephony Lifeline plans can be found at: <http://www.fivearea.com/images/homepage/lifeline.pdf>.

**TEXAS 658-A12 WEST PLAINS**

**WEST PLAINS TELECOMMUNICATIONS, INC.**

**MULESHOE, TEXAS**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

**WEST PLAINS TELECOMMUNICATIONS, INC.  
MULESHOE, TEXAS**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**TABLE OF CONTENTS**

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditor's Report		1
Financial Statements		
Balance Sheets	Exhibit A	3
Statements of Income	Exhibit B	4
Statements of Changes in Stockholder's Equity	Exhibit C	5
Statements of Cash Flows	Exhibit D	6
Notes to Financial Statements		7
Accompanying Information		
Telecommunications Plant	Schedule 1	15
Accumulated Provision for Depreciation	Schedule 2	16
RUS Mortgage Notes	Schedule 3	17
Compliance and Internal Control Section		
Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telephone Borrowers		18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		20

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**Independent Auditor's Report**

Board of Directors  
West Plains Telecommunications, Inc.  
Muleshoe, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of West Plains Telecommunications, Inc. (the Company), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters*****Accompanying Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of telecommunications plant, accumulated provision for depreciation and RUS mortgage notes for the year ended December 31, 2014, are shown on pages 15 through 17. The accompanying information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The accompanying information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information is fairly stated in all material respects in relation to the financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2015 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

April 8, 2015

-3-

WEST PLAINS TELECOMMUNICATIONS, INC.

Exhibit A

BALANCE SHEETS  
DECEMBER 31, 2014 AND 2013

ASSETS

	December 31,	
	2014	2013
<b>CURRENT ASSETS</b>		
Cash and Working Funds		
Temporary Cash Investments		
Telecommunications Accounts Receivable (Less Provision for Uncollectibles of \$2,315 in 2014 and \$3,299 in 2013)		
Other Accounts Receivable (Less Provision for Uncollectibles of \$2,000 in 2014 and \$2,000 in 2013)		
Materials		
Prepayments		
Net Current Deferred Income Taxes		
<b>OTHER NONCURRENT ASSETS</b>		
Investments in Associated Organizations		
Noncurrent Cash Investments		
<b>PLANT, PROPERTY AND EQUIPMENT</b>		
Telecommunications Plant In Service		
Plant Under Construction		
Less: Accumulated Provision for Depreciation and Amortization		
<b>TOTAL ASSETS</b>		

LIABILITIES AND STOCKHOLDER'S EQUITY

<b>CURRENT LIABILITIES</b>	
Current Maturities of Long-Term Debt	
Accounts Payable	
Accounts Payable - Related Parties	
Advance Billing and Payments	
Customer Deposits	
Accrued Taxes	
Accrued Federal and State Income Taxes	
Net Current Deferred Income Taxes	
Other Current and Accrued Liabilities	
<b>LONG-TERM DEBT</b>	
RUS Mortgage Notes - Less Current Maturities	
<b>OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS</b>	
Net Noncurrent Deferred Income Taxes	
Deferred Credits	
<b>STOCKHOLDER'S EQUITY</b>	
Common Stock (No par value; 100,000 authorized; 1,000 shares issued and outstanding)	
Paid in Capital	
Retained Earnings	
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	

See accompanying notes to the financial statements.



-4-

WEST PLAINS TELECOMMUNICATIONS, INC.

Exhibit B

STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	December 31,	
	2014	2013
OPERATING REVENUES		
Local Network Services		
Intrastate Network Access Services		
Interstate Network Access Services		
Federal and State Universal Service Fund High Cost Support		
Long Distance Network Services		
Carrier Billing and Collection Services		
Miscellaneous Revenue		
Uncollectible Revenue		
OPERATING EXPENSES		
Plant Specific Operations		
Plant Nonspecific Operations		
Depreciation Expense		
Customer Operations		
Corporate Operations		
Operating Taxes		
NET OPERATING INCOME BEFORE FIXED CHARGES		
FIXED CHARGES		
Interest on Long-Term Debt		
Allowance for Funds Used During Construction		
NET OPERATING INCOME		
NON-OPERATING INCOME (LOSS)		
Interest and Dividends		
Other Expenses		
NET INCOME BEFORE TAXES		
INCOME TAX EXPENSE		
NET INCOME		


See accompanying notes to the financial statements.

-5-

**WEST PLAINS TELECOMMUNICATIONS, INC.**

**Exhibit C**

**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>Common Stock</u>	<u>Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance - December 31, 2012				
Net Income				
Balance - December 31, 2013				
Net Income				
Balance - December 31, 2014				

See accompanying notes to the financial statements.

-6-

## WEST PLAINS TELECOMMUNICATIONS, INC.

Exhibit D

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income - (Exhibit B)		
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Depreciation Expense		
Capital Credits - Noncash		
Accounts Receivable		
Deferred Income Taxes		
Other Noncurrent Liabilities		
Materials and Other Current Assets		
Accounts Payable - Related Parties		
Payables and Accrued Expenses		
Net Cash from Operating Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Telecommunications Plant		
Plant Removal Costs		
Salvage Value of Retirements and Other Credits		
Net Change in Noncurrent Cash Investments		
Net Cash from Investing Activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to RUS		
Net Change in RUS Cushion of Credit		
Net Cash from Financing Activities		
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>		
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>		
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt		
Income Taxes		

See accompanying notes to the financial statements.

**WEST PLAINS TELECOMMUNICATIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Business Activity – Nature of Operations**

West Plains Telecommunications, Inc. (the Company) is a telecommunications utility acting as a local exchange carrier within the state of Texas, offering telecommunication services to the public under its Certificate of Public Convenience and Necessity issued by the Public Utility Commission of Texas. The Company is wholly-owned by its parent company Five Area Telephone Cooperative, Inc.

**System of Accounts**

The accounting records of the Company conform to the Uniform System of Accounts prescribed by the Federal Communications Commission for Class A telephone companies, as modified for telephone borrowers of the Rural Utilities Service (RUS).

**Temporary Cash Investments**

Temporary cash investments consist of certificates of deposit carried at cost.

**Other Accounts Receivable**

Other accounts receivable consist primarily of receivables from connecting interexchange carriers and from the National Exchange Carriers Association and the federal and state universal service funds.

**Accounting Policies for Trade Receivables**

In the normal course of business, the Company recognizes accounts receivable for telecommunications services provided and billed. The Company allows 30 days from the date of bill for payment to be received or the service is disconnected. No interest is accrued on delinquent outstanding balances.

The Company provides an allowance for doubtful accounts to recognize the portion of the receivables considered uncollectible. The allowance is estimated based on an aging of receivables and is tied to amounts owing in excess of 90 days. Management of the Company periodically reviews delinquent accounts and charges off accounts over 180 days old.

**Inventories**

Materials are valued at average unit cost.

**Advertising Costs**

The Company's policy is to directly expense all non-direct response advertising cost as incurred. The total marketing and advertising costs for the years ended December 31, 2014 and 2013 were \$[REDACTED] and \$[REDACTED], respectively.

**Other Plant, Property and Equipment**

Other plant, property and equipment is stated at the original cost of construction and acquisition which includes the cost of contracted services, direct labor, materials, allowance for funds used during construction (capitalized interest), and overhead items. Contributions from others toward construction are credited to the applicable plant accounts.



When property which represents a retirement unit is replaced or removed, the average cost of such property, as determined from the continuing property records, is credited to plant, and such costs, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the removal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except repairs of transportation and service equipment, which are charged to clearing accounts and redistributed to costs of construction and plant specific operations.

The Company provides for depreciation on a straight-line basis at annual rates which will amortize the property over its estimated useful life.

#### Cash and Cash Equivalents

For purposes of the statements of cash flow, the Company considers cash and temporary cash investments maturing in one year or less to be cash and cash equivalents. Temporary cash investments consist of certificates of deposit maturing in less than one year.

#### Regulatory Accounting

The Company is subject to regulation by the Federal Communications Commission (FCC), and the Public Utility Commission of Texas (the Commission), and follows accounting for regulated enterprises prescribed by the Statement of Financial Accounting Standards generally accepted in the United States of America.

#### Revenue Recognition

Revenue is recognized in the period earned regardless of the period it is billed.

Monthly service plan revenues derived from local service are billed in arrears and recognized in the month that service is provided. Usage sensitive revenues such as access (revenues earned from originating/terminating long distance calls) are generally billed as a per minute charge and are billed in arrears and recognized in the month the service is provided.

Interstate access revenues also include settlements based on the Company's participation in the revenue pools administered by the National Exchange Carriers Association (NECA). These revenues are determined by annually determined separation and interstate access cost studies. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. Additionally, the studies are subject to a 24-month pool adjustment period and final review and acceptance by the pool administrators. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2014 and 2013.

The Company's federal and state universal service support are intended to compensate the Company for the high cost of providing rural telephone service. Federal Universal Service support revenues includes funds received for the high cost loop support, interstate common line support, Connect America Fund (CAF), and other miscellaneous programs. High cost loop support and interstate common line support are based on the Company's current relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount



related to the 2011 plant investment and expenses associated with the switching function and certain 2011 intrastate access revenues (baseline revenues). The baseline revenue used to calculate CAF will be reduced by five percent each year.

The Texas Universal Fund provides options for Small ILECs to elect to modify the methodology for calculating their disbursements. The Company elected the option whereby the commission shall disburse funds to the Company in fixed monthly amounts. For the 12-month period following the initial period for which a company made an election under this subsection and for subsequent 12-month periods, the most recent annualized support amount calculated by the commission shall be adjusted by a factor equal to the percentage change in the consumer price index for the most recent 12-month period. This state support funding program expires September 1, 2017, at which time the program will be reviewed by the Public Utility Commission of Texas.

The revenue received from the federal and state universal service programs are as follows:

	December 31,	
	2014	2013
Interstate Access Support - CAF	\$	
High Cost Local Loop Support		
State Support		
Total Universal Service Fund High Cost Support	\$	

Regulation – The Company's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the Commission.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Federal Universal Service revenues are administered by the Universal Service Administration Company (USAC) based on rules established by the FCC, and by NECA.
- State Universal Service funds are administered by Solix Solutions based on rules established by the Public Utility Commission of Texas.

Other sources of revenue are not rate regulated and include directory, billing and collection services, and other incidental services.

Operating expenses and telecommunications plant are related primarily to regulated revenues. However, some of these costs are jointly related to regulated and nonregulated services. For settlement purposes, USF, rate making and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed from these accounts in accordance with Part 64 of the FCC rules in order to ensure that regulated revenues are based on cost of providing regulated services.

#### Federal USF and Interexchange Carrier Compensation Reform

In 2012, the Federal Communications Commission (FCC) reformed Inter-carrier Compensation and Universal Service Funding (USF) mechanisms. The majority of the new rules took effect, subject to various transition provisions. Pending and future regulatory actions may have a significant impact on the Company's future operations and financial condition.

#### Group Concentrations of Credit Risk

The Company's headquarters facilities are located in Muleshoe, Texas. The service area includes customers located primarily in the West Texas cities of Muleshoe, Olton, Springlake, Sudan, and Earth. The Company records a receivable for sales and service revenues as billed on a monthly basis to the customers and interexchange carriers. The Company requires a deposit from their customers upon connection which is applied to unpaid bills in the event of default. The deposit is returned along with accrued interest after a prompt payment history is established. As of December 31, 2014 and 2013, deposits on hand totaled \$[REDACTED] and \$[REDACTED], respectively.

The Company maintains its cash balances in institutions insured by the Federal Deposit Insurance Corporation. Interest and non-interest bearing accounts are insured up to \$250,000. At various times during the year and at year end, the Company's cash balances exceeded the insured limits.

#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purpose to conform to the presentation in the current year's financial statements.

#### Subsequent Events

The Company's management has evaluated subsequent events through April 8, 2015, the date the financial statements were available for issue.

### 2. Assets Pledged

All assets are pledged as security for the long-term debt to Rural Utilities Service (RUS).

### 3. Temporary Cash Investments

Temporary cash investments consist of certificates of deposit with maturities of less than one year.

#### 4. Investments in Associated Organizations

The investments in associated organizations are stated at cost and consist of the following:

	December 31,	
	2014	2013
Patronage Capital Credits:		
Rural Telephone Finance Cooperative	\$	
Bailey County Electric Cooperative		
	\$	

#### 5. Noncurrent Cash Investments

Noncurrent cash investments consist of certificates of deposit that mature at times after December 31, 2014.

#### 6. Plant, Property and Equipment in Service

Plant, property and equipment in service consist of the following:

	Original Cost		Depreciation Rate	Accumulated Depreciation	
	December 31,			December 31,	
	2014	2013		2014	2013
General Support Assets	\$				
Central Office Assets					
Terminal Equipment Assets					
Cable and Wire Facilities Assets					
	\$				

Depreciation expense for the years ended December 31, 2014 and 2013 was \$ and \$, respectively.



## 7. Mortgage Notes – RUS

Mortgage notes due to RUS are payable to the United States of America. The notes are for 20 year periods, and principal and interest installments are due monthly. Following is a summary of outstanding debt:

	December 31,	
	2014	2013
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2016	\$	
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
<div style="background-color: black; width: 100px; height: 15px; margin-bottom: 2px;"></div> % Note Due 2025		
Less: Advance Payments		
Less: Current Maturities		
	\$	

Estimated long-term debt maturities for the next five years are as follows:

2015	\$	
2016		
2017		
2018		
2019		

According to the RUS loan documents, the Company shall make deposits to a funded reserve account so that the net book value of the plant financed by the RUS "A" loan, plus the funded reserve account balance, will at all times be at least equal to the outstanding principal and unpaid interest of the RUS "A" loan.

At December 31, 2014 and 2013, the "A" loan note balance was \$ [REDACTED] and \$ [REDACTED] respectively, and the related net book value of the plant financed by the "A" loan was \$ [REDACTED] and \$ [REDACTED] respectively. The Company has a funded reserve of \$ [REDACTED] and \$ [REDACTED] at December 31, 2014 and 2013, respectively. The restricted funds are included with amounts classified as cash and working funds, and temporary cash investments.

The debt covenants in the RUS mortgage note agreement specify that the Company must maintain a minimum net plant to secured debt ratio (DSC) of [REDACTED] and a times interest earned ratio (TIER) of [REDACTED]. At December 31, 2014, the Company met the secured debt ratio with a DSC of [REDACTED] and the TIER debt covenant requirement with a TIER of [REDACTED].

## 8. Accounts Receivable and Payable – Related Parties

Five Area Telephone Cooperative, Inc. (the Cooperative) owns 100% of the common stock in West Plains Telecommunications, Inc. The Cooperative operates the Company under an operating agreement which provides that the Cooperative furnish its employees and facilities to the Company to assist it in performing its business functions. For all services rendered, the operating agreement provides that the Company will reimburse the Cooperative for actual cost. The Company also provides and receives telecommunications and other services from Five Area Long Distance, Inc. and Five Area Systems, Inc. These companies are also wholly-owned subsidiaries of Five Area Telephone Cooperative, Inc. The Company owes these related parties an amount of \$[REDACTED] and \$[REDACTED] as of December 31, 2014 and 2013, respectively. During the years ended December 31, 2014 and 2013, the Company recognized the following revenues and expenses from these related parties:

	December 31,	
	2014	2013
Revenues:		
Network Access Services	\$ [REDACTED]	\$ [REDACTED]
Carrier Billing and Collection Services	\$ [REDACTED]	\$ [REDACTED]
Expenses:		
Network Access Services	\$ [REDACTED]	\$ [REDACTED]
Building Space Rent	\$ [REDACTED]	\$ [REDACTED]

## 9. Income Taxes

The Company follows the provisions of Financial Accounting Standards for "Accounting for Income Taxes" generally accepted in the United States of America. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary difference between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The Company files a consolidated federal income tax return with its parent company, Five Area Telephone Cooperative, Inc. Current taxes are allocated to the entities based on the taxable income of each entity. Deferred taxes are allocated to each company on a stand-alone basis.

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to accelerated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will result in a tax savings or cost, when the asset or liability is realized.

Deferred income taxes result from transactions that enter into the determination of taxable income in different periods than recorded for financial reporting purposes. The Company's principal sources of deferred income taxes are accelerated depreciation.



The components of the deferred tax assets and liabilities recognized in the financial statements are as follows at December 31, 2014 and 2013:

	December 31,	
	2014	2013
Net Current Deferred Income Tax Asset (Liability)	\$	
Net Noncurrent Deferred Income Tax Liability	\$	

The State of Texas state franchise tax is the lower of one percent of the sum of, gross revenue less the higher of gross wages or cost of goods sold, or 70% of gross revenues. The Texas Franchise Tax expense for the years ended December 31, 2014 and 2013 was \$20,061 and \$18,528, respectively.

The components of federal and state income tax expense are as follows for the years ended December 31, 2014 and 2013:

	December 31,	
	2014	2013
Current Income Tax Expense	\$	
Deferred Income Tax Expense (Benefit)	\$	

The Company adheres to the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The Company determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS) or other State taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Company and its parent company file consolidated income tax returns in the U.S. federal jurisdiction, and in the State of Texas. The Company is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2011, and state taxing authorities for years before 2010.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2014 and 2013.

## 10. Commitments, Contingencies, and Litigation

At December 31, 2014, the Company has no significant commitments or contingencies nor is there any pending litigation against the Company that is expected to result in a material liability.

**ACCOMPANYING INFORMATION**

-15-

WEST PLAINS TELECOMMUNICATIONS, INC.

Schedule 1

TELECOMMUNICATIONS PLANT  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Balance</u> <u>1/1/2014</u>	<u>Additions and</u> <u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2014</u>
TELECOMMUNICATIONS PLANT IN SERVICE				
General Support Assets:				
Land	\$			
Motor Vehicles				
Other Work Equipment				
Buildings				
General Purpose Computers				
Central Office Assets:				
Digital Electronic Switching Equipment	\$			
Circuit Equipment				
Local Loop Fiber Equipment				
DSL Equipment				
Terminal Equipment Assets:				
Other Terminal Equipment	\$			
Cable and Wire Facilities Assets:				
Pole Lines	\$			
Aerial Cable				
Buried Cable				
Intrabuilding Network Cable				
Conduit System				
Total Plant in Service	\$			
Plant Under Construction				
Total Telecommunications Plant	\$			

-16-

WEST PLAINS TELECOMMUNICATIONS, INC.

Schedule 2

ACCUMULATED PROVISION FOR DEPRECIATION  
FOR THE YEAR ENDED DECEMBER 31, 2014




	Balance 1/1/2014	Accruals	Transfers and Retirements	Balance 12/31/2014
TELECOMMUNICATIONS PLANT IN SERVICE				
General Support Assets:				
Motor Vehicles	\$			
Other Work Equipment				
Buildings				
General Purpose Computers				
Central Office Assets:				
Digital Electronic Switching Equipment	\$			
Circuit Equipment				
Local Loop Equipment				
DSL Equipment				
Terminal Equipment Assets:				
Other Terminal Equipment	\$			
Cable and Wire Facilities Assets:				
Poles and Towers	\$			
Aerial Cable				
Buried Cable				
Intrabuilding Network Cable				
Conduit Systems	\$			
Total Telecommunications Plant	\$			
(1) Original Cost of Plant Retired			\$	
Add: Cost of Removal				
Less: Salvage Value			\$	


-17-

## WEST PLAINS TELECOMMUNICATIONS, INC.

## Schedule 3

**RUS MORTGAGE NOTES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Loan Number</u>	<u>Date of Note</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Amount Unadvanced</u>	<u>Principal Repayments</u>	<u>Net Obligation</u>
12010	06-30-96					
12020	10-26-05					
12021	10-26-05					
12022	10-26-05					
12023	10-26-05					
12024	10-26-05					
12025	10-26-05					
S020	10-26-05					
Advance Payments						
						

Net obligations include \$  due RUS payable within one year and classified as a current liability on the balance sheet.



**COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS  
AND REGULATORY REQUIREMENTS FOR TELEPHONE BORROWERS**

**Independent Auditor's Report**

Board of Directors  
West Plains Telecommunications, Inc.  
Muleshoe, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Plains Telecommunications, Inc. (the Company), which comprise the balance sheet as of December 31, 2014, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2015, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Company's accounting and records to indicate that the Company did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;